



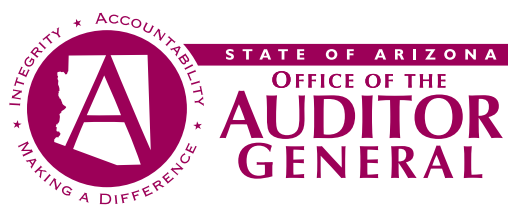
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Procedural Review

Tonto Basin Elementary School District No. 33

As of December 11, 2003



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

April 2, 2004

Governing Board
Tonto Basin Elementary School District No. 33
P.O. Box 337
Tonto Basin, AZ 85553-0337

Members of the Board:

We performed a procedural review of the internal controls of Tonto Basin Elementary School District No. 33 as of December 11, 2003. The purpose of a procedural review is to determine whether a district is in substantial compliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR). Our review consisted primarily of inquiries, observations, and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District has not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Thank you for the assistance and cooperation that your administrators and staff provided during our procedural review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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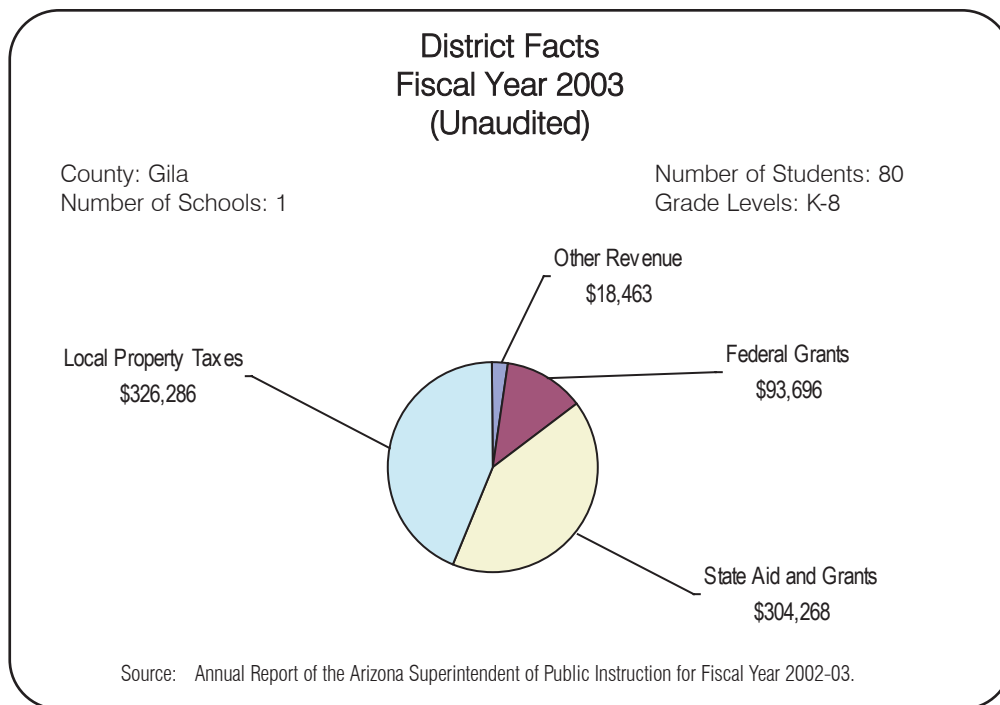
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INTRODUCTION

Tonto Basin Elementary School District No. 33 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$740,000 it received in fiscal year 2002-03 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records for Arizona School Districts* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations, and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our procedural review, we determined that the District had not complied with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District should improve controls over its bank accounts and cash

The District did not adequately safeguard cash by ensuring that bank accounts were authorized and used for their intended purposes, cash-handling and recordkeeping responsibilities were properly separated, and cash receipts were deposited in a timely manner.

Because of the relatively high risk associated with transactions involving cash, school districts should establish and maintain effective internal controls to safeguard cash. However, the District did not have adequate controls over its bank accounts. The Governing Board had not approved the District's bank accounts or designated authorized check signers. In addition, the District did not adequately separate bank account responsibilities because the Maintenance and Operation Fund (M&O) revolving bank account custodian also approved the replenishment of the revolving bank account and prepared bank reconciliations. Further, the M&O Fund revolving bank account, which is intended to be used to pay for minor purchases as outlined in Arizona Revised Statutes (A.R.S.), was used to pay for painting services and computer printers, and to deposit food service cash receipts and remit them to the County Treasurer.

Also, the District had weaknesses in its cash receipts and disbursements procedures. For example, extracurricular activities fees tax credit receipts were not deposited in a timely manner. Receipts were deposited only after approximately \$2,000 had been received. Food service receipts were only deposited every 2 weeks. In addition, documentation supporting disbursements from the M&O Fund revolving and the Employee Insurance bank accounts was not adequate.

Recommendations

To help strengthen controls over bank accounts and cash, and to help ensure accurate recordkeeping, the District should perform the following:

- Have the Governing Board authorize all bank accounts and designate check signers. Retain support to document such approval.
- Require a district official other than the M&O Fund revolving bank account custodian to approve reimbursement vouchers that replenish the bank account.
- Restrict bank account use to legally authorized purposes. For the M&O Fund revolving bank account, the only disbursements that A.R.S. authorizes are for immediate cash outlays, which include postage, freight, express, fuel taxes, parcel post, travel, and other minor disbursements. Retain documentation, such as check requests and vendor invoices to support all disbursements. Also, stamp voided checks to prevent reuse and file them numerically with other canceled checks.

USFR pages VI-C-3 and 4 describe M&O Fund revolving bank account procedures.

- Deposit only replenishment warrants from the County School Superintendent (CSS) into the M&O Fund revolving bank account. Deposit food service receipts with the County Treasurer or into a Food Service Fund clearing bank account, and remit them to the County Treasurer at least monthly.
- Restrictively endorse checks and warrants upon receipt, and deposit cash receipts intact daily, when significant, or at least weekly. Retain the bank and County Treasurer deposit receipts.
- Assign an employee not responsible for handling cash or issuing checks to prepare written bank reconciliations monthly for all bank accounts, and investigate and correct all differences immediately. If this is not possible, another district official should review and approve the reconciliations.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

The District should prepare and maintain accurate lists of capital assets

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets and to ensure they are properly identified and accounted for. However, the District's capital assets policies did not address safeguarding equipment against unauthorized use or theft. In addition, the District's capital assets list did not always have complete information for each asset, and the District did not retain documentation to support the cost recorded on the list for some assets. The list also indicated as current assets of the District, assets that had been previously disposed. Further, the District did not perform appropriate reconciliations to help ensure the list's continued accuracy.

The District did not maintain a complete and accurate capital assets list or adequate policies to safeguard capital assets from unauthorized use or theft.

Recommendations

The following procedures can help the District improve controls over its capital assets and ensure that its lists are accurate and complete:

- Prepare and maintain a current capital assets list of all items costing \$5,000 or more and with useful lives of 1 year or more.
- Prepare and maintain a current stewardship list of all equipment items costing \$1,000 or more, but less than \$5,000.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe information that should appear on the capital assets and stewardship lists.

The forms on USFR pages VI-E-13 and 14 may be used to document the reconciliation of capital assets additions to capital expenditures and the current year's capital assets list to the previous year's list.

- Include all required information for each item on the capital assets and stewardship lists.
- Retain supporting documentation for all capital assets, and verify that each asset's cost recorded on the list agrees with the supporting documentation.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year and the prior year's capital assets list to the current year's list, and make all necessary corrections.
- Perform a physical inventory of all equipment items at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile the physical inventory results to the lists, and add items to or remove items from the lists as necessary. A separate list of obsolete and damaged items may be maintained for control purposes until the items are disposed of.
- Create a policy that addresses the safeguarding of equipment against improper or unauthorized use and from theft or misplacement.

The District's procedures for processing payroll and maintaining personnel records need improvement

The District's personnel files were incomplete and written documentation for payroll changes was not provided to the County School Office.

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid the correct amount, and District records accurately reflect payroll expenditures. However, the District did not achieve this. The District did not always provide the CSS' office with written authorizations for wage-rate changes and employee terminations. In addition, the District did not maintain all required documents such as retirement withholding authorization forms, employment eligibility verification forms, loyalty oaths, and direct deposit authorizations in employee personnel files. Also, the District miscoded Classroom Site Fund monies paid to teachers as classified salaries rather than certified salaries. Further, the District's policies did not address the disposition of accrued leave time and preparation of a clearance form upon termination of employment.

Recommendations

To help strengthen controls over payroll expenditures, the District should implement the following procedures:

- Provide written authorizations for wage-rate changes and employee terminations to the CSS' office.
- Review employee files to verify that they contain the required documents.
- Obtain the required documents from new employees prior to or immediately after they begin employment with the District.
- Verify that payroll warrants, warrant registers, and payroll registers from the CSS' office agree with the prepaysroll register and voucher, and that expenditures are properly coded. The business manager or other responsible district employee should review and approve the final payroll registers and prepaysroll registers.
- Establish and follow policies and procedures that address whether or not employees are paid for accrued leave time upon termination of employment and require supervisors to prepare clearance forms to help ensure that all terminating employees return district property such as keys and equipment.

The District's personnel files should include the documents listed on USFR pages VI-H-2 through 4.

The District should strengthen controls over its expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases are approved and that its expenditures are supported. However, the District did not always prepare purchase orders and receiving reports to document that purchases were approved before committing district monies and goods and services were received. Many times, if a purchase order was prepared, the purchase order would be used several times and therefore, did not include quantities, descriptions, account codes, or approval for the purchase of specific items. In addition, the District did not adequately separate responsibilities, as the same employee was responsible for purchasing and receiving goods and services.

The District did not ensure that purchases were approved before goods and services were ordered, that items were received before paying for them, and expenditure processing responsibilities were separated among employees.

Recommendations

To strengthen controls over its expenditures, the District should ensure the following procedures are followed:

- Prepare purchase orders that include vendor name, specific quantities, prices, and account codes for goods or services ordered. If blanket purchase orders are used for purchases of a recurring nature, indicate on the purchase order a definite time period during which the purchase order is valid and an expenditure limit. Verify that sufficient cash or budget capacity is available before approving expenditures, and document approval on the purchase order prior to making the purchase.
- Have an employee who is not involved in purchasing prepare receiving reports, indicating the date and quantity received, the items' condition, and signature of the employee receiving the items.
- Cancel all supporting documents after the invoices are paid to prevent subsequent use.

Purchase order procedures are outlined on USFR page VI-G-1.